Creating Better Access to Finance for Rural Development
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With:

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"We don't need more talk. We need to understand how we can have better development impact by bringing banks like Ecobank, which has coverage across 33 countries in Africa, into the equation of shaping our public sector programs to reach smallholder farmers going forward." Terry Wyer, CSIS

Framing the issue: The importance of public-private partnerships
After the 2008 price spike, the global community came together to discuss food security, and from that came the Rome principles, which included a $25 billion dollar commitment to ending hunger. To fulfill its financial commitment, in May 2010 the U.S. Government created the Feed the Future Initiative, which has devoted $3.5 billion to food security. The missing piece from this conversation has been the private sector, which has a large stake in many developing countries and has a commanding presence in the agriculture sector. Going forward, governments and multi-lateral institutions need to partner with the private sector to maximize the effectiveness of their resources and expertise in shaping up these new programs. Innovative financing mechanisms and increased access to credit will be essential for operationalizing these partnerships.

Key takeaways:

Building lender capacity is essential.
Banks face many challenges in trying to improve access to credit. In the absence of a viable system for assessing risk, banks in developing economies are frequently risk-averse, and often have onerous collateral requirements. Along these lines, there is also often a term mismatch with regard to loans. Term loans need to match the lifespan of the asset that will be purchased with the loan. In addition, the government securities yield curve which defines the riskless rate in a particular country sometimes only goes out 2-5 years, and rarely beyond 5 years, which makes it difficult for banks to make decisions about long-term loans. Also, many banks face liquidity challenges. For example, many banks often can't meet demand in the beginning of the

crop cycle. There is also a lack of legal structure to support private equity or other types of finance. All of these barriers can dramatically reduce access to credit for smallholder farmers and/or other creditworthy applicants.

Banks are responsible for building a credit culture in their community. Therefore, staffing selection of financial programs is key. Managers need to have a nuanced understanding of credit applications in order to deny or approve applications on the basis of merit. Many managers in banks currently make lending decisions based on flawed or overly simplified information, and this prevents the funds from being leveraged for a larger benefit.

There is demand.
There are a great deal of opportunities at the lower end of the market, especially among smallholder farmers. Through risk-sharing and other types of innovative financing mechanisms provided by development agencies and finance institutions, economies can tap into this potential, with great benefits for both the consumer and the financial sector. For example, the fertilizer sector in West Africa is thought to be worth $1 billion dollars, although it is currently difficult for farmers to get a $400 loan. Governments and institutions have to think creatively to find the right financial products to mobilize capital.

Need for increased coordination and communication.
Consumers and financial institutions need to communicate more around lending. Financial institutions need to make their products and services available in a way that is accessible and appealing to the consumer. Projects focusing on building capacity can help build financial literacy among consumers, in order to help them make complex financial decisions. There are a great deal of smallholder farmers and business people in the developing world that are not accessing credit due to a lack of financial literacy and a hesitancy to become invested in formal markets. The need for increased productivity to reduce food insecurity underscores the importance of increasing to access to credit for smallholder farmers so that they can scale up and intensify their operations through greater access to improved seeds and other valuable inputs.

Stakeholders:
The Overseas Private Investment Corporation (OPIC):
The Overseas Private Investment Corporation (OPIC), founded in 1972, is a U.S. development finance institution that provides insurance for projects in developing countries that have a U.S. nexus. They provide insurance on all types of loans, from $1-250 million, in a range of sectors including manufacturing, finance, and hotels. They are active in 2/3 of countries in the world, and try to leverage what other development institutions are already doing to maximize their impact.

The Millennium Challenge Corporation (MCC):
The MCC is a U.S. international development agency that provides funds to qualifying developing countries through compacts. To be eligible for an MCC compact, a country has to meet 17 criteria, and then it can submit a proposal for a compact. The MCC has a private sector development arm that is intended to activate the private sector as a trigger for economic growth. Given the essential nature of agriculture to many economies where the MCC is active,

many of its compacts focus on agriculture, particularly access to finance within agriculture. The MCC currently has 25 compacts totaling $10 billion. 13 of those are access to finance programs, 10 of which are in the agriculture sector. These ten projects compose a portfolio of approximately $100 million. Some examples of current projects are: providing term-funding to financial intermediaries in Moldova and Burkina Faso, overhauling payment systems in Madagascar and Ghana, and creating credit bureaus in a number of countries. Overall, MCC's experience has been inconclusive on increasing access to finance. They have offered to share risk on 50/50 basis, and haven't found that this approach has changed the intermediaries' willingness to lend once the temporary risk-sharing has gone away.

The Global Harvest Initiative:
The Global Harvest Initiative, funded by a variety of private companies including DuPont, Syngenta, Elanco, and IBM, is a research organization that reports on trends affecting agricultural production. Their mission is to find ways to help the world double agricultural output by 2050 while protecting the environment. Significantly increasing agricultural production, which is essential given the UN's projected population growth over the next 50 years, also necessitates new infrastructure such as roads, storage, and processing facilities. It also necessitates investments in agricultural research, trade strengthening assistance programs, new technologies, and an increased role for the private sector. Previously the agricultural community was concerned over large surpluses, but since the 2008 and 2011 price spikes there has been a paradigm shift, and now we need to shift our thinking to trying to meet rapidly increasing demand.

Ecobank:
Ecobank, established in 1985, is a commercial bank as well as development institution. It is an active player in Africa's policy dialogue, as well as its financial development. Ecobank wants to move beyond the role of a traditional bank, both because it is invested in development issues and because diversifying its products ensures the sustainability of its operations. Ecobank has the largest network among banks in Africa, with a presence in 33 countries. It is designed to be a regional bank to promote regional integration. It is currently the number 1 bank in 8 countries, number 5 bank on Nigeria (the country with the second biggest financial sector in Africa), and in the top 3 in 15 countries throughout Africa. It has been growing rapidly and now has over $17 billion in assets and over 8.3 million customers. It is also the largest supplier of labor in Central Africa, with over 33,000 employees. It works to achieve scale in key markets, offers a diverse range of products, provides services efficiently throughout value chains, and mobilizes capital by matching supply with demand. In the agriculture sector, it supports inputs, logistics, warehousing, processing, and trade by providing primary and secondary financing to various agribusiness stakeholders. It currently has a risk-sharing program underway with USAID's DCA. It also partners with micro-finance institutions (MFIs) like ACCION to give small loans (a minimum of $100) to farmers. So far, the program has reached over 2,000 farmers. They also have matching grant schemes program with the International Fund for Agricultural Development (IFAD) underway Ghana.

USAID Development Credit Authority:
The Development Credit Authority, founded in 1999, finds innovative financing mechanisms and helps leverage capital in developing economies. Since 2008, it has been empowered by a

greatly increased emphasis on the role of the private sector in international development. The DCA utilizes the U.S. government to galvanize the private sector to take a stake in development and expand into new markets. They take an active role in building credit by focusing on areas where there is currently no market viability, and sharing the risk with a 50/50 guarantee in order to mobilize capital. In addition to risk-sharing, the DCA provides technical assistance and grant mechanisms to help increase the capacity of the financial sectors where they work. Over time, the DCA phases out, gradually assuming less risk so that a lender can open up a unique window to offer credit in a new sector. The DCA also focuses on creating new financial instruments to stimulate lending opportunities, and maintains the flexibility to operationalize these new instruments quickly and effectively. Specifically, the DCA's Strategic Transactions Group is devoted to developing and implementing these new products. Additionally, the DCA recently changed its model to station Investment Officers in each USAID mission. The Investment Officer are dedicated to finding ways to build collaborations with the private sector on ongoing projects that the mission is overseeing. The agriculture sector is a major focus for the DCA. 53% of its current portfolio is committed to agriculture, and they are working to increase that component of its portfolio to 66% over the next 5 years.